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SUBJECT: LIBYAN MEASURES TO CHECK RISING FOOD COSTS AND ACQUIRE  
'VIRTUAL WATER'

REF: TRIPOLI 438, STATE 39410

11. (U) On July 7th, the Political/Economic Assistants met with the Resident Representative of the Food and Agriculture Organization of the United Nations (FAO), Dr. Saad Elmedani Ahmed. According to Dr. Ahmed, the Libyan government (GOL) has generally taken prudent steps to protect Libyans from the worldwide foodstuffs shortages by continuing subsidization of essential staples while reducing fees and taxes on the import and distribution of food supplies in general.

12. (U) According to Dr. Ahmed, the General People's Committee for Economy, Trade and Investment has recently taken steps to mitigate the effects of worldwide increases in food prices by boosting the purchasing power of ordinary citizens. These include: production, consumption, and import service tax exemptions for basic commodities; production tax exemptions for locally-produced products used in the production of other goods; production and consumption tax exemptions of production and operation tools; a 75% fee reduction for laboratory analysis of imported goods; a 50% reduction of fees for handling, storage and port processing of imported produce; and the establishment of a fund to achieve an equilibrium between prices and the average citizens' incomes to maintain their purchasing power and protect Libya's consumer economy from international prices fluctuations.

13. (U) Dr. Ahmed also mentioned Libyan efforts to use "virtual water" as a solution to its agricultural problems. He described "virtual water" as a mechanism by which water-poor states can achieve water and food security by purchasing water-intensive agricultural commodities from water-rich states that produce a natural surplus of these products. Libya is developing partnerships with countries like Mali and Sudan in the field of virtual water trade; Libya invests in irrigated agriculture in those countries in exchange for the right to purchase all of the crops produced in those areas in which Libya has invested. The produce is then bought by the GOL at a below-market price, offsetting the initial investment costs. According to Dr. Ahmed, the scheme benefits both countries: Libya gets water-rich, high-quality agricultural products for its market and Sudan and Mali are able to provide employment and a steady export market to more farmers.

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